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C O N F I D E N T I A L CARACAS 003806

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: NEW MINISTER OF FINANCE - SAME AS THE OLD MINISTER

REF: A. CARACAS 3331

[B](#). CARACAS 3536

[C](#). CARACAS 3711

Classified By: ACTING ECONOMIC COUNSELOR DARNALL C. STEUART FOR REASON  
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SUMMARY  
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[1](#)1. (C) On December 5 President Chavez announced that Finance Minister Tobias Nobrega would be replaced by Nelson Merentes, a former Minister of Finance and current Minister of Development Finance and President of the National Bank for Economic and Social Development (BANDES). While Chavez gave no explanation, local pundits noted that the announcement came on the heels of a December 2 statement by Nobrega that the devaluation planned in the 2005 budget (from 1920 to 2150 bolivars/USD, see reftel A) would occur on January 1, a comment he rescinded the next day after a marked move in the parallel market. While punishment for such an error seems plausible, many here believe that Nobrega is stepping down to facilitate his candidacy for President of the Central Bank, a position that will become vacant in January 2005. We believe that Merentes's appointment will make little difference at the Finance Ministry. END SUMMARY.

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CHAVEZ'S ANNOUNCEMENT  
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[1](#)2. (SBU) While formally closing the "Meeting of Intellectuals and Artists in Defense of Humanity" the night of Sunday, December 5, President Hugo Chavez casually mentioned that Nelson Merentes would become the new Minister of Finance, replacing Tobias Nobrega, who has held the position since May [1](#)2002. Merentes had been Minister of Finance for less than a year from 2001 to early 2002. Merentes was then named Minister of Science and Technology. After that, he became President of BANDES, and acquired the additional hat of Minister of Development Finance in September 2004. (There is no word yet on who may fill those roles.) He also held a key role in Chavez's recall referendum campaign structure. Merentes's tenure in various positions has been characterized by scandals. The Comptroller Committee of the National Assembly cited him for at least three legal violations over the alleged misuse of 3.3 billion bolivars (about USD 4.4 billion at the time) from the Investment Fund for Macroeconomic Stabilization (FIEM, which became the FEM in December 2003) during his first tenure as Finance Minister. He was never prosecuted. While at BANDES, he is alleged to have diverted USD 2 billion to President Chavez's campaign. A more complete bio follows in paragraph 8.

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NOBREGA - CUT FOR A MISTAKE, OR A PROMOTION?  
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[1](#)3. (U) Nobrega attracted significant negative attention when he announced December 2 (while in New York to arrange the issuance of USD 500 million in new bonds) that "the Government will adjust the fixed rate of exchange to 2150 bolivars per dollar from its current level of 1920 on January 1." This caused an immediate increase in the parallel rate (from about 2300 to 2500/USD), as well as widespread shock that the date of a devaluation would be announced in advance. The next day Nobrega reversed himself, saying that the timing of the devaluation "will depend on the decision of the Venezuelan Central Bank (BCV) directors and is something that I can't know exactly when it will be." He added that Planning Minister Giordani, as one of the BCV directors, would be part of that decision, not himself.

[1](#)4. (SBU) In the meantime, Nobrega's departure from Finance has been rumored for months. He is thought to want the position of Central Bank President, which will become available at the end of January 2005. There is speculation that Nobrega was replaced as Minister in order to facilitate

such a move. The Minister of Finance is a participant in the ad-hoc board that will consider who will replace the BCV president. That board has already discussed who will replace one Director (Manuel Lago) whose term ends this month. Nobrega's departure avoids at least the appearance of conflict of interest by the committee.

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WHAT DOES IT MEAN?  
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15. (SBU) Efraim Velazquez, President of the National Economic Council, told econoff December 6 that he did not believe the switch would have a significant impact on short-term economic policy, though he thought that bond issuances could be more inefficient at first, given that Merentes is a mathematician, not an economist like Nobrega. The only major longer-term effects he saw would be if Nobrega became BCV President. Should that occur, Velazquez foresees a loosening of monetary policy, which would have inflationary results by 2006 and 2007. Other opinions were mixed. Credit Suisse analyst Jan Dehn was quoted as saying the move "represents a policy shift to the left and a move further away from orthodoxy in economic policy." Caracas Stock Exchange President Nelson Ortiz (who, unlike Dehn, lives in Venezuela) told the press "I don't believe there will be a huge impact."

16. (C) Alejandro Dopazo, an advisor to Nobrega who until two months ago was Director of Public Credit at the Finance Ministry, told econoff December 7 that he expects no change in policy at the Ministry. He also downplayed the rumor of Nobrega going to the BCV, saying that Nobrega was concerned about the optics of being associated so closely with the current administration and making such a move so quickly. He did not, however, discount Nobrega for a position as Bank Director. He implied that the leaving the Ministry was largely Nobrega's choice, that he had been waiting for the right time to leave after having such a difficult tenure through 2002 and 2003.

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COMMENT  
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17. (C) Nobrega's own comment December 3 about the lack of a role for the Finance Minister in deciding when the planned devaluation will occur underscores the relative unimportance of the Minister's role in economic policy formation in Chavez's government, as does the fact that five Ministers have now left the position in less than six years. Nobrega's first New York announcement about the devaluation date could have been a misstatement, or it could have been a trial balloon floated just before moving to another position. This happened recently with Ali Rodriguez, who barely a month before his appointment as Foreign Minister floated a suggestion that the GOV was considering raising the price of gasoline (reftel C). While this was roundly denied by other GOV officials, the precedent is out there.

18. (C) Nobrega had a certain amount of credibility with some investors, and he was recognized for his success and creativity in restructuring Venezuela's debt. Merentes's appointment will probably mean little at the Ministry of Finance. Velazquez told econoff on November 2 that the GOV treated Finance as just "an ATM machine," a ready source of cash on demand and not a policy advisor. Given that Merentes is more revolutionary and less of an economist than Nobrega, that could change, though perhaps Chavez already considers such advice from Merentes. The biggest potential change from this switch will depend on where Nobrega lands. If indeed he takes a key role at the Central Bank, it will be a major step towards achieving GOV control of that institution. END  
COMMENT.

19. (SBU) Bio data on Merentes:

Born May 6, 1954, Merentes earned a degree in Mathematics from the Central University of Venezuela in 1978 and a Ph.D. in Mathematics (summa cum laude) from the Scientific University of Budapest in 1991.

Prior to his role as Minister of Finance from July 2001 to February 2002, he was Vice Minister of Regulation and Control at Finance from October 2000 until becoming Minister. Merentes was a founder of the Fifth Republic Movement (MVR, Chavez's political party) and participated in the Constituent Assembly that drafted the 1999 Constitution. He was also head of the Finance Committee in the Provisional Congress that followed the ratification of the Constitution until the first National Assembly elections were held.

More recently, Merentes was President of the National Bank for Economic and Social Development (BANDES) and had also been named Minister of State for Development Finance in September 2004. While head of BANDES, he also served as

Director of Technology in Comando Maisanta, the organization designated to run Chavez's recall referendum campaign. In our meetings with him he has been engaging, while always defending the Chavista line. He comes across as sharp, shrewd and ambitious.  
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